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SIPDIS

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

[E. O. 12958](#): N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [PGOV](#) [ZI](#)

SUBJECT: Good Start for Currency Auctions

[1](#)1. Summary: The Reserve Bank of Zimbabwe (RBZ)'s initial currency auction ran smoothly. The RBZ now wants to find an exchange rate that discourages speculation but encourages exports. End Summary.

Zimdollar has gained 35 percent

[1](#)2. The RBZ held its first auction on Jan 12, where the zimdollar traded at a weighted average of 4200:US\$. This rate seems to mirror the present parallel rate, reflecting a 35-percent stronger zimdollar than last month. During a similar period last year (December 15, 2002-January 30, 2003), the zimdollar gained a more modest 12 percent against the US dollar.

[1](#)3. Demand for US dollars has been light for a variety of reasons - Christmas/Summer break, return of forex-carrying Zimbabweans abroad for the holidays, need for besieged commercial banks to raise Zimdollar reserves. In fact, the RBZ sold only one-tenth of the US\$ 5 million it brought to auction on Monday. As companies resume operations, they will need forex for imports, increasing demand.

What to Expect

[1](#)4. It's obviously impossible to predict the zimdollar's future rate. However, we make the following observations:

- Demand for US dollars will pick up, but only gradually. Importers who bought US dollars at higher rates are stuck with large inventories.

- The RBZ has great leverage to control the auction exchange rate. It is the RBZ, not exporters, which determines when and at what rate forex earnings are exchanged. The RBZ is free to accept or refuse as many low-ball offers for US dollars as it wants - it's the exporters, not Government, that takes home fewer zimdollars - which in turn drives down the weighted average.

- Because the RBZ presently has more forex than it can sell, bankers have told us they will make a number of low-ball offers at the upcoming auctions. If the RBZ accepts these offers, the weighted average will be lower (meaning, exporters will earn less). Thus we could see the rate fall further in the very near-term.

Comment

[1](#)5. Despite its early success, the RBZ is playing a difficult game. To displace the parallel market, it has to maintain a high enough auction rate that exporters still have an incentive to export. They already sacrifice 25 percent of earnings at the official rate (Z\$824:US\$). This year's tobacco harvest will be the lowest in a decade and the RBZ cannot afford to discourage exports in mining, manufacturing and other agribusinesses. With inflation continuing to surge, Zimbabwe would price itself out of international markets; the RBZ would have so little forex to auction that buyers would eventually turn to the parallel market. The Confederation of Zimbabwe Industries says RBZ Governor Gideon Gono has reacted favorably to a proposal that exporters no longer surrender 25 percent of earnings at the official rate but submit 50 percent for auction. Still, the mandatory official exchange has been easy money for the GOZ, a tough habit to break.

Sullivan